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UNCLAS SECTION 01 OF 02 CANBERRA 000296

SENSITIVE
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SUBJECT: NBN DECISION NEARS

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[1](#)B. 08 CANBERRA 1277 AND PREVIOUS

[1](#)1. (SBU) Summary. As the deadline approaches, nobody who knows is saying who will win the tender for the National Broadband Network. The only thing all observers seem to agree on is that it won't be Telstra. Minister Conroy and his staff are keeping mum. Telstra has been aggressively pushing plans for its own upgrade of broadband services in major Australian cities. Rumors circulate that structural separation could be in the offing for Telstra, and the regulator is suing Telstra over access to exchanges. GOA not using stimulus programs for broadband funding. End summary.

NBN DEADLINE APPROACHES BUT NO INDICATIONS WHO WILL WIN

[1](#)2. (SBU) The date is approaching when the GOA is supposed to announce its decision on who will be awarded the A\$4.7 billion (US\$3.3 billion at current exchange rate) to build and run the A\$15 billion National Broadband Network. Originally set for this week, a public announcement will be delayed until Prime Minister Kevin Rudd returns from the G20 meeting in London.

[1](#)3. (SBU) That is the perhaps only sure thing about the NBN announcement. Minister Stephen Conroy's office and his Department of Broadband, Communications, and the Digital Economy (DBCDE) have been mum on who will win the NBN. The most recent rumor had Acacia (formerly Terria), the Melbourne-based consortium with lots of industry and Telstra veterans, in the lead. But nobody in the industry seems to put much stock in that rumor, including Acacia, and earlier equally poorly-sourced rumors had Canadian telcom Axia and SingTel subsidiary Optus in the lead. The only part of the NBN that looks solid is that TransACT is expected to be awarded a contract for the portion of the NBN covering the small Australian Capital Territory.

[1](#)4. (SBU) At a dinner hosted by CDA on March 18, econoff asked Minister Conroy about the impending announcement. Conroy confirmed that the decision would be made soon, but an announcement would not be made until after PM Rudd had returned from his overseas trip. Conroy refused to be drawn out on who might be the pick. Even industry insiders who usually are very well connected admitted to having no idea who was the front-runner.

TELSTRA STILL OUT

[1](#)5. (SBU) One other thing does seem certain - Telstra is still

out of the NBN bidding. Some speculated that the announced resignation of CEO Sol Trujillo could give Conroy an out if he wanted to bring Telstra back in. That never seemed likely to post; there has been too much bad blood between Telstra and Conroy, with some of the most scathing broadsides coming from Telstra Chairman Don McGauchie, who remains in place. But Conroy has reiterated that Telstra is definitely out of the bidding process, noting that the GOA would be open to legal challenge if it reopened the bidding process at this late date.

¶6. (U) Earlier in March, Telstra announced it would soup up its broadband base in Australia's capital cities. The first stage would be upgrading its hybrid fiber coaxial (HFC) network in Melbourne to deliver speeds up to 100 megabits a second by Christmas; NBN minimum target is 12 mbs. The announcement was a clear challenge that Telstra would compete as vigorously as ever, and was denounced by competitors and Qas vigorously as ever, and was denounced by competitors and others as an attempt to undermine the NBN. Conroy's office, however, merely noted that Telstra's HFC network only reaches 2.5 million. Other analysts noted that this network would be a "second-rate" technology compared to the fiber mandated by the NBN.

¶7. (U) Telstra has now been sued for the first time by its regulator, the Australian Competition and Consumer Commission, for not providing access for its competitors to seven Telstra-owned exchanges in metropolitan areas. The ACCC disagreed with Telstra's contention that there was not adequate capacity at the seven exchanges; it will seek penalties and injunctions against Telstra that under law

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could reach as high as A\$10 million (US\$7 million).

¶8. (SBU) Finally, the rumors of structural separation of Telstra continue. An industry representative of a competitor to Telstra said that aides to Conroy have been dropping hints that such separation was being considered.

¶9. (SBU) Comment: Telstra is clearly out. To turn around now would be a major embarrassment to Conroy and as he said, would likely result in legal challenges. But once the tender is awarded, the next step will be to see how Telstra cooperates with the winner. Continued obstructionism by Telstra there could possibly make the rumor of structural separation come closer to reality.

¶10. (U) Comment, continued. The NBN is based on a campaign promise made in mid-2007, and has been in the works since early in the Rudd Government, which began in November 2007. There has been no broadband or IT component in either of the two stimulus packages the GOA has passed since the global financial crisis intensified in September 2008. End comment.

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